



Urban Initiative Loan Program

Report to the Legislature
as required by M.S. 116M.17, Subd. 4

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Author: Bart Bevins

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Department of Employment and Economic Development

1st National Bank Building ■ 332 Minnesota Street, Suite E200 ■ Saint Paul, MN 55101-2146 USA

www.positivelyminnesota.com

Toll Free: 800-657-3858 ■ Phone: 651-259-7114 ■ Fax: 651-296-4772 ■ TTY: 800-296-3900

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URBAN INITIATIVE BOARD

Report to the Minnesota Legislature, 2012

Minnesota Statutes 116M.17, subd. 4, requires the Department of Employment and Economic Development (DEED) to submit an annual report to the Minnesota Legislature "...of an accounting of loans made under section [116M.18](#), including information on loans to minority business enterprises, and the impact on low-income areas."

Urban Initiative Loan Program

The Urban Initiative Program was created in 1993 to strengthen minority enterprise development, encourage private investment, create jobs and promote economic development in low-income areas of Minneapolis, St. Paul, and the suburbs of Bloomington, Brooklyn Center, Brooklyn Park, Burnsville, Columbia Heights, Coates, Coon Rapids, Fridley, Lauderdale, Lexington, Mendota, Miesville, New Germany, New Brighton, New Hope, Newport, Richfield, Spring Lake Park, South St. Paul and West St. Paul. The program accomplishes these goals by making loans to new and expanding businesses in these targeted cities.

Urban Initiative loans are made through a network of certified nonprofit organizations.

Appendix 1 includes a list of current participants. The nonprofits receive grants, which they use to make loans to qualifying businesses. In most cases, the state's funds must be matched with funds from private, non-government sources. The participating organizations may lend between \$1,000 and \$150,000 in Urban Initiative funds to qualifying businesses. Repayments are forwarded to the state, while any interest collected remains with the lending partner.

A wide variety of businesses are eligible for loans including technologically innovative, value-added manufacturing, and information industries. Some business types are not eligible for loans including liquor stores, taverns or saloons, businesses primarily selling tobacco products, or adult entertainment businesses. Micro enterprises, which generally employ fewer than five people and which may include retail businesses, are eligible for loans up to \$25,000.

Individuals and businesses located in an eligible city apply directly with one of the participating organizations. The organizations carefully consider the application, the nature of the business and management, its potential for success and repayment, and its projected impact on the community. If the application is given initial approval, it is forwarded to DEED for final consideration. Funds are disbursed on a project by project basis.

Lending Activity in 2012

During fiscal year 2012, DEED received 23 loan applications from 23 businesses. It reviewed and approved 22 of the applications, which totaled \$460,070 in loan requests. This investment helped to leverage just over \$1.98 million in additional investment. The state contributed an average of \$20,912 to each of the proposed business loans, ranging from \$5,000 to \$100,000. The median amount of state funds invested was \$17,200. This is the fewest loans and smallest amount of money loaned by the Urban Initiative Program since 1995. A detailed listing of the approved projects is included in **Appendix 2**.

Businesses Assisted. Table 1 below shows a breakdown of the state’s investment by type and number of businesses, as well as total project costs, wages and projected job creation. The businesses receiving loans projected that they would create or retain a total of 115 jobs over the next year and would pay employees an average of \$11.28 per hour, excluding benefits. The average state investment per job created would be \$4,000.

**Table 1. Urban Initiative Project by SIC*
FY 2012**

Business Sector	No. of Projects	State Investment	Average State Investment	Total Project Investment	Projected Jobs	Projected Wages
Manufacturing	1	\$25,000	\$25,000	\$25,000	20	\$10.00
Transportation	1	\$42,500	\$42,500	\$862,000	24	\$18.20
Wholesale	1	\$50,000	\$50,000	\$180,000	0	\$0.00
Retail	15	\$208,350	\$13,890	\$1,110,993	58	\$9.09
Financial	1	\$7,500	\$7,500	\$15,000	0	\$0.00
Services	3	\$126,720	\$42,240	\$247,948	13	\$10.27
Total	22	\$460,070	\$20,912	\$2,440,941	115	\$11.28

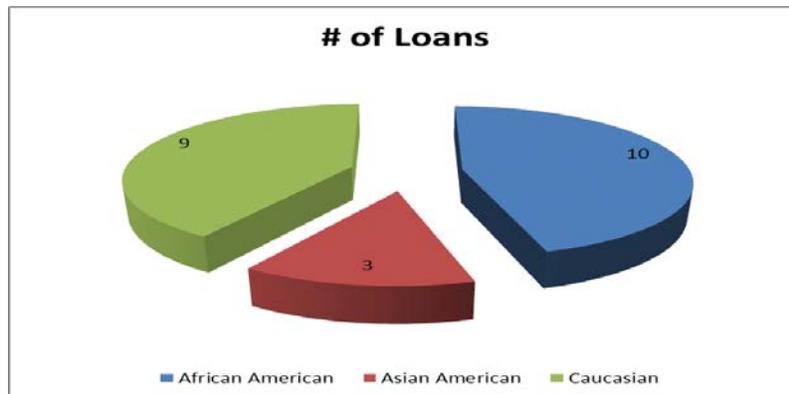
* Classifications used in this report are the Standard Industrial Classification codes rather than the North American Industry Classification System.

As **Table 1** shows, loans to the businesses in the retail sector (15) made up the majority of loans and the largest amount of state funds invested. Service sector businesses received only three loans but the total state investment was \$126,720, the second largest amount. On the other hand, only one loan each was made to companies in the manufacturing, transportation, and financial sectors. Midwest Moving, the lone transportation company receiving a loan, projected creating 24 jobs and at \$18.20 per hour is projected to pay the highest wages among all loan recipients. A loan to one manufacturing company, R.F. Beardsley Services, dba CLG Enterprises, supported the retention of 20 existing jobs. CLG began business manufacturing clothing for rodeo participants. The Urban Initiative loan supported its expansion into clothing for medical personnel.

The largest single state investment was to the Vista Urban Eye Clinic at \$100,000 in FY 2012. Four retail businesses received an Urban Initiative loan of \$5,000 each, the smallest investment made during the year. Ten of the funded projects supported the retention of the businesses. Loans that supported the retention of businesses represented almost half of all of the Urban Initiative loans made in FY2012.

Ownership. The Urban Initiative Program is intended to support the development of non-traditional entrepreneurs, especially minorities and women. The ownership of the businesses that have received loans through the program reflects that focus. As shown in **Figure 1** below, minority business owners received 59 percent of program loan funds in FY 2012.

**Figure 1. UI Loans Made by Business Ownership Demographic
FY 2012**



As shown above, nine loans went to businesses owned by African-Americans. In many of these cases, recipients were recent immigrants to the United States, primarily from East Africa. Three of the nine loans made to Caucasian owned businesses were made to men. Unlike previous years, the number and percentage of loans, by gender, were evenly distributed between men, women and two or more people, in most cases married couples.

Program Activity Since Program Inception

Between January 1995 and June 30, 2012, the Urban Initiative Program has made 743 loans to businesses in the Urban Initiative service area. It has committed a total of \$16.105 million in state funds and helped generate an estimated \$71.4 million in additional business investment. The average state investment per loan is \$21,677, while the median investment is \$12,300. The average total loan, including the private funds used to match the state’s investment, was \$43,243, while the median total loan was \$20,000.

Businesses Assisted. Table 2 below shows the distribution of the state’s investment in these businesses using Standard Industrial Classification (SIC) codes. The “FIRE” category refers to businesses that provide financial, insurance and real estate services. The “Trans./Comm” category refers to businesses engaged in transportation, communications and utility services.

Businesses in the retail (300) and service (198) sectors received the largest number of loans made through the program, while the fewest loans have been made to businesses in the agricultural (7) and financial (14) services sectors. Businesses in the service (\$4,774,222) and retail (\$3,636,403) sectors also received the largest total amount of state investment. Manufacturing businesses received the third largest total state investment (\$3,201,345). Businesses in the manufacturing and construction sectors received the largest average state investments (\$36,379 and \$35,320 respectively). The average state investment in retail businesses on the other hand was the lowest at \$12,247. It is noteworthy that retail businesses received 22 percent of the state funds, but represented 40 percent of the total number of projects. This is largely because statute limits the amount of state funds that may be invested in retail businesses to \$25,000.

**Table 2. State UI Funds by Business Sector
January 1, 1995 – June 30, 2012**

Business Sector	Total \$ Loan	# of Loans	Average Loan	Median Loan	% of Total \$
Agriculture	\$229,125	8	\$28,641	\$30,000	1.4%
Construction	\$1,412,783	40	\$35,320	\$20,000	8.8%
FIRE	\$285,350	14	\$20,382	\$47,471	1.8%
Mfg.	\$3,201,345	88	\$36,379	\$102,186	19.9%
Retail	\$3,636,404	300	\$12,121	\$19,645	22.6%
Services	\$4,766,222	198	\$24,072	\$43,031	29.6%
Trans./Comm	\$1,435,152	60	\$23,919	\$43,510	8.9%
Wholesale	\$1,139,466	35	\$32,556	\$72,184	7.1%
<i>Total</i>	\$16,105,845	743	\$21,677		100.0%

The Urban Initiative Program provides financing for a very diverse set of small business activities. Unlike some of DEED’s other loan products, the program often lends to individuals who want to start up a business and to businesses that need continuing financing. **Table 3** provides information about the performance of businesses that are starting up or less than one year old, expanding their operations, or working to remain in business.

**Table 3. UI Loan Status By Type of Business Project
January 1, 1995 – June 30, 2012**

Loans	Retained	Expansion	Startup
# of Loans	138	297	308
Total State Investment	\$2,692,847.20	\$9,185,837.40	\$4,227,160.72
\$ Repaid	\$935,265.98	\$3,763,588.89	\$1,694,914.65
Average \$ Written Off	\$13,300.26	\$21,212.05	\$8,013.66
No. of Projected Jobs	159	351.5	156
No of Actual Jobs	106.3	411.5	167

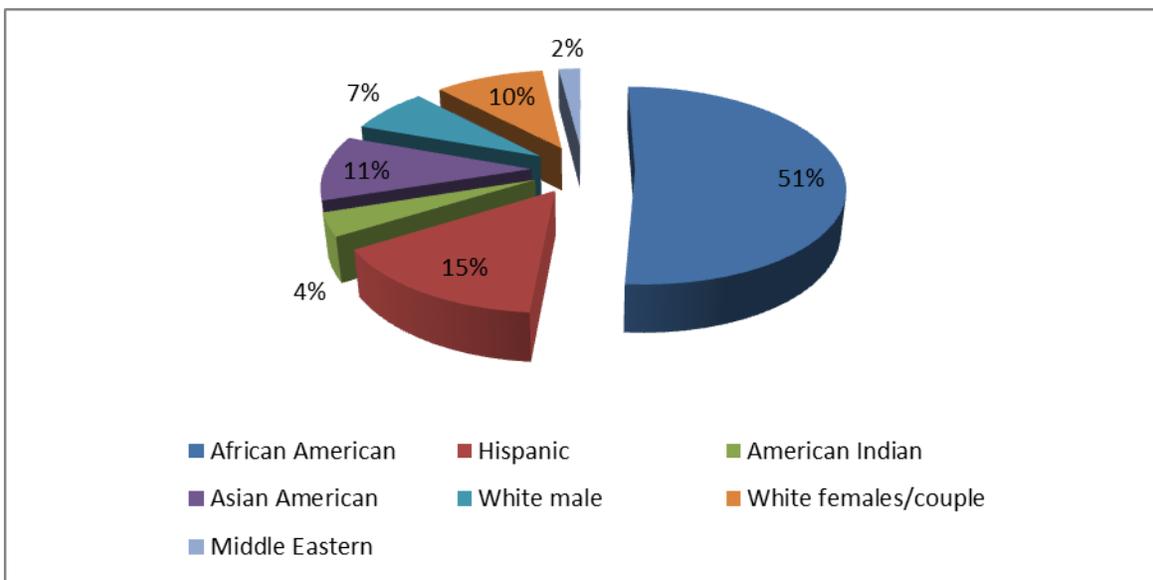
Although expanding and startup businesses have received an almost equal number of loans, expanding businesses have received more than double the amount of state funds. Both expanding and startup businesses have repaid about 40 percent of the state’s loans, while “Retained” businesses have repaid 35 percent.

The amount of loans written off by expanding businesses is significantly higher than for the other two types of businesses. At the same time, the number of loans to “Expansions” and “Startups” that have been written off are about the same – 88 and 91 respectively – while the number of write offs for “Retained” businesses was only 28. Additional information regarding job creation by “active” businesses (i.e., those repaying Urban Initiative loans at the end of the 2012 fiscal year) is provided on **Table 4** below.

Expanding businesses projected that they would create the largest number of jobs, and based on the reports received from the participating lenders, these businesses outperformed their projections. Startup businesses also outperformed their projections, but only by a very small amount. “Retained” businesses fell far short of their projected employment.

Ownership. The Urban Initiative Program is intended to support the development of non-traditional entrepreneurs, especially minorities and women. The ownership of the businesses that have received loans through the program reflects that focus. **Figure 2** below provides a percentage breakdown of all the loans made through the program.

**Figure 2. Loans Made by Business Ownership Demographic
January 1, 1995 – June 30, 2012**



As of June 30, 2012, 82.5 percent of all Urban Initiative funds had been lent to minority entrepreneurs. African-American business owners have received \$7.36 million of loan funds, followed by Hispanic (\$2.53 million), Asian-American (\$2.3 million) and American Indian (\$727,500) business owners. In terms of gender, women-owned businesses have received 23 percent of the program’s funds (\$3.7 million) while businesses owned by men received 62 percent of the state’s investment (\$10.1 million). Businesses owned by two or more individuals, generally a married couple or family, have received \$2.37 million.

Employment. The Urban Initiative Program is also intended to support the creation of job opportunities in its targeted cities. Accordingly, DEED asks for information about the businesses that have received Urban Initiative loans, including the total number of jobs created by the business, including the owners.

The agency received information about 186 “active” businesses, i.e., those businesses operating and repaying Urban Initiative loans at the end of the 2012 fiscal year. Once a business repaid its loan or defaulted on the loan, it is no longer asked to report on its jobs performance. The information shown in **Table 4** reflects their responses.

**Table 4. Jobs Created by UI Loan Recipient Industry Sector
January 1, 1995 – June 30, 2012**

Business Sectors	# Active Projects	Projected Jobs	Projected Wages	Actual Jobs	Actual Wages	Total \$ Disbursed	\$/ Job Created
Agriculture	1	2	\$10.00	3	\$12.00	\$25,000.00	\$8,333
Construction	6	69	\$20.59	76	\$26.07	\$517,500	\$6,809
FIRE	4	6	\$11.25	0	\$0.00	\$72,500	\$0
Manufacture	11	98	\$14.45	143	\$12.80	\$764,500	\$5,346
Retail	77	120	\$7.66	202.3	\$7.76	\$1,442,416	\$7,130
Services	35	173.5	\$14.51	199.5	\$15.02	\$20,000	\$100
Trans/Com	27	55	\$12.23	48	\$11.88	\$674,000	\$14,042
Wholesale	7	13	\$7.86	13	\$5.31	\$249,890	\$19,222
<i>Total</i>	167	534.5		681.8		\$3,740,806	\$5,487

Overall, these “active” businesses reported creating or retaining 681 jobs that paid actual wages between \$5.31 and \$26.07 per hour. When these businesses applied for loans, they projected creating or retaining 534 jobs. Businesses in manufacturing, retail and services supported the largest number of jobs. On the other hand, the few businesses in the financial and the transportation sectors created fewer jobs than projected.

The businesses in the construction sector reported the highest average wage, followed by the service sector. Most of the loans made to businesses in the transportation sector were to trucking businesses and most of the employees of those businesses are paid on a per mile basis. As a result the projected and actual wages for these employees are based on a very rough calculation of their hourly wage. Also, note that the actual wages shown for wholesale sector employees is artificially low because of incomplete reports from the businesses.

Loan Performance. Table 5 below provides a breakdown of loans that have been repaid or written off by business sectors.

**Table 5. UI Loans Written off and Paid
January 1, 1995 – June 30, 2012**

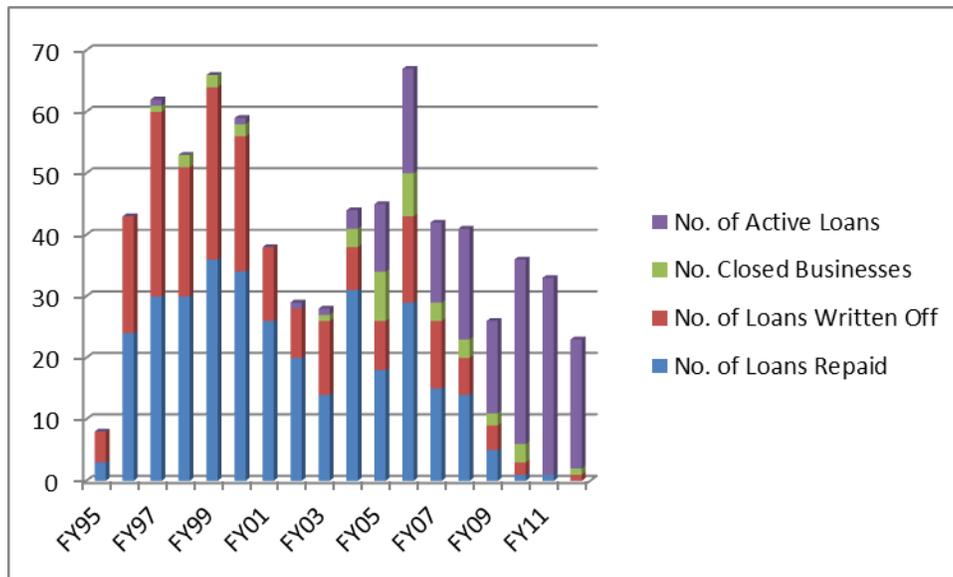
Business Sector	Total \$ Loan	# of loans	Loans Written Off	Total \$ Written Off	Loans Paid Off	Total \$ Paid Off
Agriculture	\$229,125	8	4	\$71,973	3	\$100,000
Construction	\$1,412,783	40	17	\$156,560	15	\$486,175
FIRE	\$285,350	14	1	\$10,774	7	\$129,750
Mfg.	\$3,201,345	88	28	\$606,445	45	\$1,535,041
Retail	\$3,636,404	300	69	\$414,374	134	\$1,453,489
Services	\$4,766,222	198	67	\$1,131,836	81	\$1,633,944
Trans./Comm	\$1,435,152	60	13	\$137,566	31	\$735,692
Wholesale	\$1,139,466	35	10	\$389,133	16	\$319,679
<i>Total</i>	\$16,105,845	743	209	\$2,918,660	332	\$6,393,770

Since lending activity started in 1995, a total of 332 loans have been repaid for a total of \$6.4 million. During the same 17-year period, a total of 209 loans have been written off for a total of \$2.9 million. The remaining loans are in some stage of repayment. The average amount lost for each loan written off was \$13,964. This represents 18.1 percent of the total state funds invested through the Urban Initiative Program.

The losses experienced by the program are not altogether surprising considering that most of the entrepreneurs participating in the program have very limited experience operating a business. Many of these businesses are undercapitalized and have very small margins for error if problems occur.

Figure 3 below provides a simple breakdown of the status of the loans that were made for each fiscal year through June 30, 2012. As can be seen, lending activity was very high in the early years of the program and with the exception of 2006, has been trending down since 2004.

**Figure 3. Status of UI Loans by Fiscal Year
January 1, 1995 – June 30, 2012**



Financial Position. Appendix 3 shows the program’s balance sheet and cash flows for the life of the program. The program’s total assets as of June 30, 2012, were \$6,030,119.04. These assets are made up of cash in the Urban Initiative account – \$1,588,341.06 – and loans receivable – \$4,441,777.98. On average the program has disbursed \$896,331 each year and has received \$537,420 in principal repayments. Since its inception, the program has received a total of \$9.1million in principal repayments, as well as \$2.117 million in interest earned through the investment of program funds. In addition, the program has received \$20,602 in loan interest repayments. The interest repayments are nominal because the program allows the participating organizations to retain repaid interest to cover a portion of their operating expenses.

Administration. During 2012, the Riverview Economic Development Association formally withdrew from the Urban Initiative Program. This action was taken as a result of REDA's merger with the Neighborhood Development Alliance, which also serves the West Side community of St. Paul. At the time of the merger, the combined organization determined that it would not have the staffing capacity to make any new Urban Initiative loans. Instead, REDA/NeDA signed an agreement with the Metropolitan Consortium of Community Developers to manage REDA/NeD's existing loan portfolio. MCCD will also take the lead in offering financing programs to businesses in REDA/NeD's service area.

DEED provides administrative support to the Urban Initiative Program. If you have any comments regarding this report or would like additional information, contact Bart Bevins at 651/259-7424 or bart.bevins@state.mn.us.